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RUEHTRO/AMEMBASSY TRIPOLI PRIORITY 0204
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SIPDIS

SENSITIVE
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STATE FOR NEA/MAG (HARRIS)
STATE PASS USTR (BURKHEAD) AND USAID (MCCLLOUD)
USDOC FOR ITA/MAC/ONE (NATHAN MASON), ADVOCACY CTR (REITZE), AND
CLDP (TEJTEL)
USDOC PASS USPTO (ADAMS, BROWN AND MARSHALL)
CASABLANCA FOR FCS (ORTIZ)
LONDON AND PARIS FOR NEA WATCHER

E.O. 12958: N/A

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SUBJECT: TUNISIA ECONOMIC HIGHLIGHTS

REF: TUNIS 52

[¶1.](#) (U) This cable contains highlights of recent economic developments in Tunisia on the following topics:

- [¶A.](#) Growing Inflationary Pressures on Tunisia's Economy
- [¶B.](#) Tunisia Posts Record US \$1.6 billion FDI
- [¶C.](#) GOT Allocates US \$802.94 million for Subsidies
- [¶D.](#) Tunisia, Morocco Strengthen Economic Cooperation

Growing Inflationary Pressures on Tunisia's Economy

[¶2.](#) (U) According to the latest Tunisian National Institute of Statistics (INS), Tunisia's consumer price inflation, for January, rose to 5.7 percent year-on-year compared to 5.3 percent in December [¶2007](#). The January increase was due mainly to 9 percent growth in food costs because of higher prices of imported commodities. Sizable flows of foreign direct investment (FDI, see para 4), and the depreciation of the dinar relative to the Euro may also have contributed to inflation, according to the IMF.

[¶3.](#) (U) The IMF January's Article IV report predicted that inflationary pressures, particularly imported inflation, would be likely to continue in 2008. However, the Tunisian Central Bank's cautious monetary policy, and increase of required reserves ratios, is expected to keep inflation down to 4 percent on average in 2008. This forecast takes into account likely increases in the price of "administered products" (e.g., oil) if world commodity prices remain high.

Tunisia Posts Record US \$1.6 billion FDI

[¶4.](#) (U) During a February 9 press conference, Nouredine Zekri, Director General of Foreign Investment at the Ministry of Development and International Cooperation, said that Tunisia's

foreign direct investment (FDI) jumped to a record 2.0 billion dinars (US \$1.6 billion) in 2007, thanks to higher inflows in the tourism and energy sectors. FDI in tourism and real estate more than doubled to 72 million dinars (US \$57 million) in 2007 compared to 2006. The energy sector drew 1.35 billion dinars (US \$1.07 billion) versus 940.3 million dinars (US \$714.63 million) in 2006, while services attracted 146.4 million dinars (US \$115.66 million), up 32.1 percent in 2007. The services sector represents 45 percent of the country gross domestic product (GDP) and is seen rising to 50 percent in 2011. FDI in the labor-intensive manufacturing sector stood at 485.7 million dinars (US \$383.7 million) compared to 347.4 million dinars (US \$264.02 million) in 2006, and created 17,356 new jobs. According to Zekri, the GOT hopes FDI will account for 26.1 percent of gross domestic product (GDP) by 2016 from an expected 22.7 percent this year.

15. (SBU) Comment: Rising FDI has been generated by the implementation of the Tunisian-EU Association Agreement, GOT investment policy in telecommunications and privatizations and concessions, which helped attract European companies and branches of foreign companies established in Europe to invest in Tunisia. Additionally, Tunisia is witnessing significant growth in Gulf FDI (reftel). End Comment.

GOT Allocates US \$802.94 million for Subsidies

16. (U) Tunisia's 2008 state budget has allocated US \$802.94 million for the General Subsidy Fund (CGC), which primarily subsidizes basic food and energy products. Record prices of oil and other world commodities prompted authorities to adopt a budget supplemental in December 2007, which effectively doubled subsidies to 1.3 percent of

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GDP. However, the May and October 2007 increases in retail gas prices kept oil subsidies at the budgeted 1 percent of GDP.

17. (SBU) Comment: In its January's Article IV report, the IMF recommended Tunisia consider less costly alternatives for protecting the purchasing power of low-income households. One contact has estimated that 18,000 jobs are lost every year as a result of waste associated with the GOT subsidies. Ironically, many subsidies benefit for the middle and upper classes just as much as if not more than low-income earners. For example, the flour that is subsidized is used not only in bread but in pastries; the cement that is subsidized is used for new construction that the poor cannot afford; neither do the poor benefit as directly from subsidized fuel as do those who can afford to own their own vehicles. The GOT is caught between its reluctance to risk social unrest and its efforts to keep the state budget deficit at 3 percent of GDP. End Comment.

Tunisia, Morocco Strengthen Economic Co-operation

18. (U) On February 23, the prime ministers of Morocco and Tunisia concluded the 14th High Joint Moroccan-Tunisian Committee meetings in Tunis with the signing of eight new cooperation agreements. Among the agreements, the two sides agreed to facilitate the operation of a direct sea line between Tunisia and Morocco, which will further facilitate bilateral trade, following the signature of an open skies agreement in 2007. The ministers also announced a goal of increasing bilateral trade from US \$304.15 million in 2007 to US \$500 million per annum.

19. (SBU) Comment: Tunisia and Morocco are expected to finalize details of a free trade agreement by May 2008. Despite competition in the tourism sector, the two countries seek to improve economic relations within North Africa and with the European Union. End Comment.
GODEC